

Ricardian theory of economic development

On the line of Prof. Adam Smith and Prof. Ricardo developed the theory of economic development by taking into account of several areas which may directly influence the attainment of economic development.

His ideas on the depth of the process are being scattered in this book 'the principle of political economy & taxation'-1817. Ricardo never propounded any theory of economic development. He discussed the theory of distribution with the help of deductive reasoning & analytical approach. His theory is based on the marginal & surplus principles. Technically the marginal & surplus principles explain. The share of rent in the national output whereas the surplus principle explains the divisions of the remaining share of rent in the national output whereas the surplus principle explains the divisions of the remaining share between wages & profits.

Rent is a surplus paid by the tiller of the soil to the owner for the use of original & indestructible power of the soil.

The main content of Ricardian theory includes-

- 1) Role of agriculture
- 2) Division of rent, profit & wages out of national output
- 3) Operation of law of diminishing return
- 4) Process of capital accumulation which includes the profit rates & level of rising in wages & other source of capital accumulation.

1) Role of agriculture :-

According to Ricardo agriculture plays a very important role in the process of economic development as it supplies food for the growing population, raw materials to industry & also provides purchasing power to the rural of manufacturing industry. According to him there are 3 major groups in the economy where they have called as production class namely the landlords, capitalists & laborers who can help for the expansion & diversification of economic activities which promotes the economic development.

2) Division of rent, profit & wages :-

The national income or GNP is a result of joint effort or collective efforts made by landlord, capitalists & laborers who equally share the remunerations in the form of rents, profits & wages.